

VZCZCXRO4689
PP RUEHGR
DE RUEHWN #0178/01 0271812
ZNR UUUUU ZZH
P 271812Z JAN 06
FM AMEMBASSY BRIDGETOWN
TO RUEHC/SECSTATE WASHDC PRIORITY 1750
INFO RUCNCOM/EC CARICOM COLLECTIVE PRIORITY
RUEHDG/AMEMBASSY SANTO DOMINGO PRIORITY 5786
RUEHCV/USDAO CARACAS VE PRIORITY
RUMIAAA/HQ USSOUTHCOM J2 MIAMI FL PRIORITY
RUMIAAA/HQ USSOUTHCOM J5 MIAMI FL PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 BRIDGETOWN 000178

SIPDIS

SENSITIVE
SIPDIS

SANTO DOMINGO FOR FCS
TREASURY FOR FRANSICSO PARODI
SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EIND](#) [ECPS](#) [SENV](#) [ENRG](#) [PINR](#) [BB](#)
SUBJECT: BARBADOS BUDGET - PM PLEDGES TAX CUTS AND ENERGY
SAVINGS

REF: 05 BRIDGETOWN 149

11. (SBU) Summary: Barbados Prime Minister Owen Arthur presented his government's 2006 economic and financial policies in a January 16 speech to parliament. PM Arthur pledged to lower energy costs, cut taxes, boost pensions, and prop up manufacturing. Most of the budget seems practical and will not greatly increase the country's debt (around 88.0 percent of GDP). The only major imprudent expenditure is a US\$150 million investment into the island's unprofitable sugar industry. End Summary.

12. (U) In front of the full parliament and a packed gallery (EconOff and PolOff attended), Prime Minister Owen Arthur delivered a two and a half hour speech outlining his government's economic and financial policies for 2006. With the parliamentary opposition in disarray (septel), a confident PM Arthur announced tax cuts, incentives to reduce energy costs, increased government investment in the sugar industry, loosened foreign exchange controls, and investment incentives. He also promised to increase subsidies to dairy farmers, improve education, better manage the risks of natural disasters, and prepare the nation for Cricket World Cup 2007.

2005 Economic Performance

13. (U) Arthur began his speech with good news on the country's 2005 economic performance. Gross Domestic Product (GDP) grew by 4.1 percent, compared to 4.8 percent in 2004. Inflation was 4.0 percent, up from 1.7 percent in 2004, and unemployment reached a record low of 8.5 percent. The country's growth is remarkable because the economy expanded despite a drop in tourism. Cruise ship arrivals slid around 20.0 percent from 534,136 in 2004 to 425,933 in 2005 (January - October figures), while long stay visitor numbers stayed more or less constant. Sugar, manufacturing, and construction output rose 10.3 percent, 3.0 percent, and 17.6 percent, respectively. Exports and domestic investment also grew, while foreign exchange reserves slightly increased - in contrast to the sharp drop in reserves in 2004.

Government Finances

14. (U) Barbados has prudently kept its government spending in check over the past few years, and Arthur said the fiscal deficit for the 2005-2006 fiscal year (ending in March 2006) will likely be just 1.7 percent of GDP, less than the target of 2.5 percent of GDP. Total government spending is US\$1.04 billion, or around 33.0 percent of GDP.

Tax Cuts

15. (U) Currently, Barbadians making less than US\$10,000 per year pay no income tax. PM Arthur proposed raising this threshold to US\$11,250, meaning an additional 6,159 citizens would pay no income tax. This politically savvy measure will probably only cost the government US\$2-3 million, while exempting an additional 2.0 percent of the population from income taxes. Arthur also proposed several other tax cuts, including reduced income taxes for international businesspeople and a reduction in property taxes. The Prime Minister introduced a temporary tax on non-CARICOM imports in September 2005, and he plans to raise this tax from 3.0 to 6.0 percent to help curb imports and pay for the tax cuts.

Energy Savings

16. (SBU) As one of two Caribbean leaders (PM Patrick Manning in Trinidad is the other) to publicly reject Venezuela's PetroCaribe concessionary oil financing offer, PM Arthur faces pressure to reduce his country's nearly US\$200 million

BRIDGETOWN 00000178 002 OF 003

annual fuel import bill. His solution is a slew of tax incentives on everything from diesel cars to fluorescent bulbs to home energy audits. In addition, the government plans to increase domestic oil production by 50.0 percent (up from 1,000 to 1,500 barrels per day) and use more natural gas. Arthur announced that the electric company, Barbados Light and Power, will construct a wind farm capable of producing 26 million kilowatt hours (KWh) of electricity annually, and a sugar cane-powered 30 megawatt plant (see paragraph 8).

BioNote - PM Arthur

17. (SBU) According to a senior Bajan official, PM Arthur, an economist by training, cloisters himself away from his office for several weeks to focus on the national budget, even refusing to meet high level visitors. (Note: General Craddock of SOUTHCOM visited during Arthur's budget preparations and the Prime Minister declined to meet with the General. End Note.)

18. (SBU) At the Embassy's Martin Luther King Jr. reception, Dr. Marion Williams, Governor of the Central Bank, hinted to EconOff that she did not agree with many of the Prime Minister's measures to liberalize foreign exchange controls. (Comment: Unlike the Federal Reserve in the United States, the Central Bank of Barbados is not independent from political control. If this private difference of opinion results in public sparring, the opposition could use the well-respected Central Bank Governor's words to cast doubt on the sagacity of the Prime Minister's economic policies. End Comment.)

Wasting Money on Sugar

19. (U) PM Arthur announced plans for a US\$150 million facility including a 30 megawatt power plant and sugar cane

processing facilities to annually produce 12,000 tons of refined sugar for the domestic market, 10,000 tons of specialty sugar for the export market, 5,000 tons of specialty sugar for the local market, and 14 million liters of ethanol for the domestic market. The Prime Minister has presented the facility, scheduled for completion in 2008, as the salvation of the local sugar industry, now that the European Union is dropping its subsidized sugar price by 36.0 percent over the next two years, from 523.7 Euros/ton to 335 Euros/ton. Even at 523.7 Euros/ton, Barbados loses money on every ton of sugar it exports. According to Erskine Griffith, the Barbados Minister of Agriculture, the Barbados yield ratio of 21 tons of sugar per acre of sugar cane is, "the lowest of any sugar producing nation." Griffith went on to say that producers in Brazil get up to 80 tons per acre.

¶10. (U) The sugar for the local market is to be called "Muscovado Gold" and will retail for US\$1.46 per kg, compared to US\$.77 for imported sugar (usually from Guyana). (Note: Guyanese sugar products are also imported in large quantities to produce "Barbadian" rum. End Note.) Barbados cannot protect its local sugar market from CARICOM competition, given the free movement of goods provisions of the CARICOM Single Market and Economy. The government apparently will depend on nationalism to induce people to pay twice as much for local sugar as imported sugar.

Comment

¶11. (SBU) This massive investment in the sugar industry defies logic and sours an otherwise prudent budget. The cost of producing sugar on a small island with high labor costs and limited mechanization is astronomically higher than in Brazil or other major sugar producers. Barbados is probably one of the least efficient sugar producers in the world and cannot compete within CARICOM, much less on the world market.

BRIDGETOWN 00000178 003 OF 003

Instead of exporting bulk sugar to the European Union at inflated prices, Barbados will be selling its sugar domestically at inflated prices. Sugar is so intrinsic to their national identity, however, that Barbadian taxpayers apparently support this fiscal profligacy.

¶12. (SBU) The true purpose of the US\$150 million investment is not to protect the environment or to reduce energy costs, but to give sugar a future. If Barbados were serious about protecting the environment and reducing its energy import bill, then the country could more cheaply accomplish both these goals by importing sugar cane ethanol from Brazil. No matter what use for sugar cane Barbados comes up with, almost every other sugar producing country can grow it cheaper, harvest it cheaper, and process it cheaper. Instead of pouring more money into sugar, the Government of Barbados would be better served letting the industry die a peaceful death, as St. Kitts did in 2005. End Comment.
KRAMER